

Agency Strategic Plan

Department of Taxation

Agency Mission, Vision, and Values

Mission Statement:

The Virginia Department of Taxation's mission is to serve the public by administering the tax laws of the Commonwealth of Virginia with integrity, efficiency, and consistency.

Agency Vision:

TAX believes in putting our customers first in everything we do, setting our performance as the benchmark for business and government, and creating an agency culture based on trust, fairness, and mutual respect. To ultimately have one vision, one team, one voice.

Agency Executive Progress Report

Current Service Performance

In November of 1998, TAX's Leadership Team created the TAX 2004 Vision, which set out goals for TAX's core processes. Early the next year, this led to the creation of a blueprint document that was developed to define TAX's core business processes. TAX's operations are based on established core business processes instituted to serve the customers better, and the underlying theme, "Placing the customer first in everything we do."

Channel Management processes involve accepting, processing, and sending data for TAX. The data include tax returns, correspondence, and tapes from other agencies. The data comes to TAX through different "channels" such as the Internet, electronic transfer, tapes and paper. For the 2005 filing season TAX saw an increase in the electronic filing usage for returns. Individual filings were a 12% increase over 2004 to 1,452,000 and business transactions increased 123% to 1,177,849. Electronic payments through June showed a 24% increase to \$8.3 billion.

Customer Service processes involve interacting with customers, maintaining accounts, and responding to customer inquiries. Registering businesses and assisting customers who have difficulty paying their tax bills are also included in this area. These processes utilize all the available channels to exchange information and provide the best service possible to TAX customers. Current service targets measure the number of phone calls handled and the turnaround time for incoming correspondence.

Compliance processes identify TAX customers who have become noncompliant. These are customers who are either underreporting their tax obligation or not paying their reported tax liability. This area also helps bring customers into compliance and identifies recurring issues. Current collection of compliance revenues were 443.1 million in FY05. The Court Debt Unit provides collection services on request for Virginia's courts to collect delinquent court fines and fees. Collection of court fines reached a new high in FY05, totaling \$31.2 million, or about \$3.7 million more than was collected in FY04.

Policy Development, Revenue Forecasting, and Appeals and Rulings processes include developing and implementing tax policy for the benefit of Virginia TAX customers, employees, and stakeholders, revenue forecasting and estimating, formal appeals of audit assessments, and requests for rulings. Policy Development has implemented a new database to create and manage fiscal impact statements and legislative action summaries, and track legislation for the agency. This database has streamlined the process by eliminating paper, having the approval system electronic, and having the information in one place easily accessible for users. TAX is responsible for forecasting the Virginia official economic outlook, the General Fund Revenue forecast, the Commonwealth Transportation Fund forecast, the Personal Property Tax Relief Act (PPTRA) reimbursement forecast as well as the DMV Special Fund forecast.

In FY05 statewide, employment was forecast to increase 2.4%, the actual increase was 2.5%. Employment growth was strongest in Northern Virginia which can be attributed to increases in federal government spending

Agency Strategic Plan

Department of Taxation

on homeland security and defense. Personal income was forecast to increase 6.0% while the actual increase was 7.3%, driven by healthy economic growth in the second half of fiscal year 2004. General Fund revenues rose by 9.7%, exceeding the official forecast of 6.7% growth. The strength in revenue collections was broadly based. Collections in the two largest revenue sources – payroll withholding taxes and sales taxes -- representing over 85% of revenues, ended the year with a forecast variance of 0.3%. The Commonwealth Transportation Fund was expected to increase 2.8% and actual collections increased 3.3%. Actual Personal Property Tax Relief Act (PPTRA) reimbursements for FY05 totaled \$907.2 million, \$4.0 million below the official forecast of \$911.2 million and 3.1% above FY04 levels. FY05 marked the third consecutive year that actual reimbursements were less than the forecast. The forecast variance is primarily attributed to a slowdown in the rise of new and used vehicle values and a delay in reimbursement requests by some localities. The Department of Motor Vehicles' Special Fund collections increased by 1.6% versus the official forecast of a 2.9% increase.

Since the establishment of Appeals and Rulings in August 2001, by June 30, 2005, active case inventory has been reduced by 48% and the number of cases more than 120 days old has been reduced by 66%, meaning response time to taxpayers' appeals, offers and ruling requests has been reduced dramatically. On average, 65-70% of the assessed amounts are upheld, collected and deposited, which translates to \$17.6 million per year on average.

Productivity

e-Government

- Over 1.4 million returns are filed through new Internet, eliminating the need to receive and process paper returns
- Nearly \$2 billion in sales tax return payments are made on-line
- 80,000 new businesses have registered on-line, eliminating a long and complex paper return process for these taxpayers
- Over 900,000 tax policy documents have been retrieved on-line, ensuring easy citizen access without the need for a written request
- Over 45,000 payment plans for outstanding bills have been established through a self-service telephony system, resulting in nearly \$26 million in payments

Channel Operations

- 95% of Individual refunds issued in less than 12 days, compared to 85% in 2000 (99% of refunds for electronic returns issued in less than 12 days)
- Interest paid on individual income tax refunds reduced by 50%
- Over 6 million documents imaged to date, allowing instant access by all agency staff
- Peak period staffing reduced by 30%
- Warehouse space for storing paper returns reduced by 50%
- Peak-period payment deposit time reduced by 25%

Customer Relationship Management

- Correspondence turnaround time reduced by 50%
- Inbound contacts reduced by 10%
- Correspondence backlog of 55,000 eliminated, and correspondence now responded to in substantially less time than the 30 day objective

Compliance

- Revenue generated through the Partnership initiative totals \$232 million as of June 30, 2004
- Auditor productivity up 10%
- 8 of 9 district offices closed as a result of the home-basing initiative to field auditors and collectors
- Over 9,000 third-party liens issued per month, a 160% increase over the old system

Agency Strategic Plan

Department of Taxation

Major Initiatives and Related Progress

Partnership Project

In July 1998, TAX entered into a Public Private Partnership with CGI-AMS, Inc. (formerly American Management Systems, Inc.) to reengineer our business processes and leverage appropriate technology to foster business success. This benefits-funded modernization project has already resulted in significant operational improvements and customer service improvements, including entirely new customer services, taxpayer compliance initiatives, new filing channels, a complete modernization of all technology platforms, as well as significant organizational improvements and operational efficiencies.

The Partnership Project has already successfully completed over twenty large information technology projects, covering a wide range of business processes, including compliance, document processing, customer service, and other areas. In addition, a complex and highly visible Tax Amnesty program was added to the scope of the Partnership Project and was successfully executed. The final implementation occurred Summer of 2005, and the contract will conclude in September of 2006.

The Partnership Project has never been seen as an endpoint but instead as a launching platform. The Partnership has already delivered over twenty new technology systems, including the following:

- STRATA – A collection prioritization and risk assessment tool.
- Sales Tax Audit and Nexus (STAUDN), Withholding, Corporate – An application used to perform audits at the taxpayer's place of business.
- Computer Automated Collections System for Government (CACSG) – An automated collections system that provides for tracking of assessments through various collection stages.
- Customer Relationship Management (CRM) – An approach to meeting customer's needs that relies on a suite of technology systems that provides customer assistance, customer contact tracking, correspondence tracking, and case management.
- Imaging/Optical Character Recognition (OCR)/Intelligent Character Recognition (ICR) – Automated data and image capture of returns and correspondence.
- Remittance Processing – A system that provides for preparation of checks for bank deposit and data extraction for input into the enterprise system.
- Compliance Repository and Auditor's Toolkit – A data warehouse of taxpayer information and an application that allows for comparison of data to select audit candidates and manage the resulting audit activities.
- Lotus Notes – Administrative applications that support applications such as an online Agency Operating Procedures application, Collaborative Work Environment application, Configuration Change Management Tracking application, a Procurement Tracking application, and a Legislative Tracking application.
- ADVANTAGE Revenue (AR) – Back-office taxpayer accounting system that maintains taxpayer demographic and account information.
- VATAX Online – A full suite of online services for businesses and individual income tax customers.
- The iReg for Business application allows new businesses to register online and allows existing businesses to add business locations and consolidate their filings.
- The iFile for Business application allows taxpayers to file sales, use, and withholding taxes over the Internet.
- The iFile for Individual application allows individual taxpayers to file over the Internet, to check their refund, and to change their name and address.

Amnesty Program

In 2003, Governor Mark Warner proposed and the Virginia General Assembly enacted Virginia Code § 58.1-1840.1 establishing the Virginia Tax Amnesty Program for the purpose of improving voluntary taxpayer compliance and increasing and accelerating collections of certain taxes owed to the Commonwealth. Amnesty was expected to produce \$48.5 million in additional tax revenue. The statute took a "carrot and stick" approach to Amnesty. During a period of 60 to 75 days established by the Tax Commissioner, all eligible taxpayers could satisfy tax debts by paying the entire tax and half of the accrued interest. Eligible taxpayers could be forgiven payment on the "other half" of the accrued interest and all penalties assessed to date. At the same time,

Agency Strategic Plan

Department of Taxation

however, an additional penalty of 20% on the original principal would be imposed upon any Amnesty-eligible debts not satisfied during the limited Amnesty window.

The campaign focused on two themes: user-friendly filing and payment options for taxpayers, and extensive taxpayer education and public awareness of Amnesty's benefits.

User-friendly filing and payment options included the following:

- No Amnesty application form required from taxpayers
- "Bill-by-Bill" participation by taxpayers in Amnesty
- Interest rates on omitted taxes simplified to a single annual rate of nine percent
- Interest accruals frozen on day 1 of the Amnesty window to keep bill amounts from being "moving targets"
- Payment Plans available to make 6 monthly installments
- A new Amnesty web site featuring "QuickPay"
- Web access to an interest calculator to remove the guesswork from interest calculations on omitted taxes
- Web access to all Amnesty Rules, Guidelines, Forms, and FAQ's
- Seven local offices available for Amnesty walk-in service in last two weeks of the campaign

By any measure, the Amnesty campaign exceeded expectations. The final tally on Amnesty revenue was \$94.9 million above baseline collections, well above the target of \$48.5 million. Among the most outstanding results achieved by the project was the processing of a huge flood of tax returns and payments mailed on the final day of Amnesty in just two weeks. This rapid clean-up of Amnesty cases allowed audit and collections programs to resume normal activity two weeks after the campaign closed. Timely commencement of normal compliance programs was critical in avoiding a counterproductive post-Amnesty dip in compliance revenue. The successful conduct of the campaign together with the quick resumption of normal operations are a point of pride with TAX making the Amnesty program a truly satisfying accomplishment.

Tax Reform Act of 2004

In November 2003, Governor Warner introduced his Tax Reform Plan which was aimed doing three things, 1) make the tax code fairer, 2) meet Virginia's commitment to education and other core services, and 3) preserve the state's fiscal integrity and help secure its triple-A bond rating. Of the 16 specific components proposed by Governor Warner, 11 were adopted into law:

- Raise the income tax filing threshold (minimum income at which you must file a return)
- Raise the personal exemption
- Reduce the sales tax on food
- Eliminate the marriage penalty
- Provide tax relief to military and National Guard families
- Provide tax incentives for small businesses to invest in Virginia
- Reform the age deduction (based on income)
- Increase the state sales tax
- Close some corporate loopholes (intangible holding companies)
- Require corporations using "pass through entities" to report their shareholders' earnings in Virginia
- Increase the state cigarette tax

Implementation of these components was a new initiative for TAX in FY05 with some of the initial work starting in FY04. The provisions of the Tax Reform Act contain 14 effective dates and modify provisions of 7 different taxes.

Agency Strategic Plan

Department of Taxation

Virginia Ranking and Trends

While TAX knows of no objective rankings of tax or revenue agencies, the following awards indicate TAX is a leader in the nation:

- 2001 Federation of Tax Administrators (FTA) award for Management and Organizational Initiative in State Tax Administration
- National Association of State Chief Information Officers (NASCIO) 2001 Recognition Award for Outstanding Achievement in the Field of Information Technology
- Semifinalist - Innovations in Government Award from the John F. Kennedy School of Government at Harvard University
- The Council of State Governments Eagle e-Government Award of Excellence, recognizing the VATAX Online as one of the best Executive Branch Web sites in all of state government across the nation
- 2002 Governor's Technology Award for Public-Private Partnerships
- 2003 Cost Effectiveness Through Government Award, sponsored by the National Electronic Commerce Coordinating Council
- 2003 4th place award from the Center for Digital Government in the category of Best Government Applications for State General Government
- 2004 Honorable mention winner for Excellence in E-payments, sponsored by the National Electronic Commerce Coordinating Council
- 2004 First place Gold Quill Award in both Marketing Communications and the Economic, Social & Environmental Development categories; Merit award for Multi-Audience Communications, sponsored by the International Association of Business Communicators (IABC) for the Virginia Tax Amnesty public awareness media campaign
- 2004 DC Chapter of International Association of Business Communicators: two Silver Inkwell Awards as follows: Communication plans and campaigns in the advertising or marketing category, and Communications plans and campaigns: in the fund-raising category
- 2004 Direct Marketing Association: a silver award in the Not-for-profit/multimedia/Integrated Media category
- 2004 Telly Awards: Three awards - one silver statuette, the Tellys' highest distinction, and two bronze statuettes
- IRS "Honorable Mention" for over 1 million e-filed returns for the 2005 Filing Season
- 2005 Governor's Technology Award for Public-Private Partnerships

Customer Trends and Coverage

TAX sees its customers having basic computer knowledge and using the Internet to a greater extent. TAX believes there is a large and increasing number of taxpayers who can and will use the Internet to serve themselves 24 hours a day if the information is available to them. The customer base is increasing in age and ethnic diversity.

Future Direction, Expectations, and Priorities

TAX will continue its commitment to serving the public with customer focused services that are more efficient and productive. TAX's focus will be to exploit the technology tools that have been implemented through the Partnership Project to keep offering more innovations in customer service products and match employee skill sets with customer needs.

Agency Strategic Plan

Department of Taxation

Impediments

TAX faces many challenges. Funding is always important and maintaining current funding levels are critical to providing current service processes. It becomes difficult to retain funding levels with unfunded mandates and initiatives. Staffing is also a critical issue as TAX's workforce is aging with many staff able to retire in the near future. Then there are the additional challenges of leveraging a full time workforce with a large temporary workforce and the limited availability of skilled candidates for hire. Also the makeup of the staff is changing as TAX moves from a paper-based organization to a technology-driven organization. Another obstacle for TAX is its multiple locations. TAX is located in four buildings in the Richmond area which leads to lost time because of travel, communications, etc.

Agency Background Information

Statutory Authority

Title 58.1

Chapter 1 Taxes Administered by the Department of Taxation, Chapter 2 Department of Taxation, Chapter 3 Income Tax, Chapter 6 Retail Sales and Use Tax, Chapter 6.1 Virginia Tire Recycling Fee, Chapter 8 State Recordation Tax, Chapter 9 Virginia Estate Tax, Chapter 10 Cigarette Tax, Chapter 14 Virginia Watercraft Sales and Use Tax, Chapter 15 Virginia Aircraft Sales and Use Tax, Chapter 16 Forest Products Tax, Chapter 17 Miscellaneous Taxes, Chapter 18 Enforcement Collection, Refund, Remedies and Review of State Taxes, Chapter 26 Taxation of Public Service Corporations, Chapter 32 Real Property Tax, Chapter 35 Tangible Personal Property, Machinery and Tools and Merchants' Capital, Chapter 36 Tax Exempt Property, Chapter 37 License Taxes, and Chapter 39 Enforcement, Collection, Refunds, Remedies and Review of Local Taxes.

§3.1-336 Virginia NPM Statutes

Customer Base:

Customer Description	Served	Potential
Agency Management and Employees	1,000	1,100
Attorney General's Office	1	1
Cigarette Stamping Agents	150	200
Federal/State/Local Governments	216	216
General Assembly	140	140
Governor's Office	1	1
IRS/Professional Associations	31	31
Local Assessing Officials	150	150
Localities	134	134
Motor Fuel Districts	2	2
State Agencies	124	124
Taxpayers of the Commonwealth	3,500,000	4,000,000
Tobacco Wholesalers	154	154

Anticipated Changes In Agency Customer Base:

TAX anticipates our customer base to grow. The average annual growth in new taxpayers is over 2%.

Agency Strategic Plan

Department of Taxation

Agency Products and Services:

Current Products and Services

- Performs tax payment processing, tax return processing, data capture and error resolution, refund issuance, electronic filing and payment services, forms development and provides mail pickup and delivery for entire agency. (Deposits over \$15 billion annually and issues over \$1.2 billion in tax refunds.)
- Generates Fiscal Impact Statements on pending legislation, writes reports to the Governor and General Assembly, and drafting of other documents (Tax Bulletins, Regulations, Rulings, Annual Report, Annual Survey of Local Tax Rates).
- Drafts determination letters for the Tax Commissioner's signature for 1821 appeals, rulings on factual scenarios based on established policy, gives technical assistance to taxpayers, TAX employees, and other agencies, settling disputed liabilities through offers in compromise, advisory opinions on factual scenarios for BPOL and local business taxes, and responding to requests for change in corporation filing status.
- Creates Economic Outlook notebook for the Governor's Advisory Board of Economists and Economic and Revenue Outlook notebook for the Governor's Advisory Council on Revenue Estimates, prepares speeches and presentations for the Governor's office, and prepares monthly revenue report for the Governor's office.
- Answers incoming telephone calls from taxpayers, answers incoming correspondence, both paper and fax, from taxpayers, answers incoming e-mail and secure messages from taxpayers, assists walk-in taxpayers at public offices, issues refunds, issues assessments, makes online adjustments, issues direct deposit corrections, grants abatements, and monitors tax credit usage.
- Audits to ensure compliance, assessing of outstanding taxes, refunding overages, and collecting delinquent taxes.
- Delivers new technology systems and tools to TAX that will enable business success needs that relies on a suite of technology systems that provides customer assistance, customer contact tracking, correspondence tracking, and case management.
- Sells tobacco stamps to wholesalers, prepares the Financial Statements for the agency, processes all invoices for payments, prepares the Agency budget, distributes funding to external agencies (localities, motor fuel districts, contribution agencies, set off agencies), and performs the accounting for all transactions that take place in a taxpayers account, to include all revenue received, all refunds issued, all bills created, etc.
- Conducts recruitment and hiring, provides compensation management, manage benefits administration, administer rewards and recognition programs, administers performance management, offers employee dispute resolution, provides workforce development and training, and provides succession planning.
- Performs scheduled audits of activities and special projects throughout TAX, investigates allegations made through the State Employee Fraud, Waste, and Abuse Hotline, serves as TAX's liaison for audits and reviews conducted by the Auditor of Public Accounts, serves as Contract Administrator over Northrop Grumman (independent monitor of the Partnership Project), reports identifying opportunities to improve agency operational efficiency, effectiveness, controls, risk management, and specific areas where revenues can be increased and costs reduced, reports authenticating or negating allegations of employee fraud, waste, and abuse and short and long-term recommendations to address instances with merit, conducts timely and nondisruptive annual independent audits, and provides relevant and timely recommendations resulting in the successful implementation of the Partnership Project initiatives and systems.
- Produces agency newsletter VISION, brochures, pamphlets, fliers, posters, fact sheets, tabletop presentations, etc., creates marketing campaigns, drafts media releases and media advisories, and conducts media calls and press conferences.
- Develops, bids and administers purchases for long-term contracts and spot purchases, administers eVA for the agency, administers the agency's Small Purchase Charge Card Program, administers fleet activities for the agency, handles requests for state pool and permanently assigned vehicles, maintains agency owned facility, administers various facilities contracts, provides maintenance and security

Agency Strategic Plan

Department of Taxation

services to staff at all agency locations, provides relocation services, space design and construction management at all locations, administers all agency leases, provides support services for all IT systems related to wiring and cooling needs, administers and updates emergency and safety procedures, throughout the agency, administers TAX's physical and access security, and monitors daily operations and guard performance.

- Manages technology support delivery - Plan and manage delivery of the technology systems at TAX that enable business operations, including the budget for technology services.

Develops and maintains application software - develop, test, maintain and operate TAX's technology systems, including over twenty complex IT systems that comprise an Integrated Revenue Management System. Includes annual legislative modifications, as well as TAX's self-service eGovernment channels.

- Manages the technology environment configuration - manage, plan, monitor, and oversee TAX's technology infrastructure, and approve all changes to the technology infrastructure, including a Change Control group that ensures effective migration (and protection) of all production systems, upgrades, maintenance, enhancements, and releases.

- Ensure all components of the technology infrastructure (hardware, software, and environment configurations) are maintained and changes to production systems are properly controlled and tested.

- Administers and enables IT Security - Administer daily security activities such as adding, removing, and modifying users and their associated access (over 2,500 system users), reviewing audit trails, access attempts, virus threats, and potential browsing incidents, ensuring the security of TAX's data, systems and technology infrastructure by providing expert guidance to ensure security is "designed in" and exploiting best practices use of technology tools to improve intrusion detection, prevent unauthorized access, and enhance security administration.

- Manages IT Disaster Recovery - Manage a comprehensive IT Recovery plan, encompassing all aspects of IT connectivity, applications and services. Ensure the full recovery of any unplanned computing services interruptions.

- Ensures Quality Control - Ensure changes to production systems are monitored and controlled to reduce risks to the agency and minimize errors. Ensure software changes are successfully migrated from test to production. Manage software version control to ensure a clear separation between test systems and production systems. Approximately 1,200 changes are implemented annually.

- Supports TAX's Technology Infrastructure - Management of TAX's databases and support for UNIX.

- Coordinates the Advanced Assessors' School including the hiring of instructors, finding suitable classroom space, arranging for housing and meals, obtaining course materials, handling registration, billing and payments.

- Gives advisory aid to all local assessing officials, education of boards of equalization and boards of assessors, training provided through the Basic Assessors' School and Basic Tangible Personal Property School, staff provided for the State Land Evaluation Advisory Council (SLEAC), refunds and opinions regarding the state recordation tax, rolling stock assessments of railroads and freight carline companies, statement of assessed values for local tax purposes of railroad and interstate pipeline transmission companies, original and revised property tax maps, review of appraisals submitted in support of the state land preservation credits, and the statewide assessment/sales ratio study.

Factors Impacting Agency Products and Services

TAX POLICY RESEARCH AND ANALYSIS:

The quantity and complexity of tax legislation and the size and complexity of business transactions for which due diligence requires advance definitive tax guidance.

APPEALS AND RULINGS:

Number and quality of assessments issued, the Federal and state law changes, regulation and policy changes, court decisions, and changes in the manner in which companies conduct business.

TAX RETURN PROCESSING:

Seasonal factors affect services, for example, with over 90% of individual income tax returns processed between early February and early June, this area requires an annual recruitment process to ensure staff is in place to deal with peak return and payment volumes. Economic factors affect the quantity and quality

Agency Strategic Plan

Department of Taxation

of available staff.

CUSTOMER SERVICE:

Affected by changes in tax laws and changing population numbers and demographic levels, customer service needs increase with tax activity, whether associated with compliance activities, refund/return filing, or error resolution activity.

COMPLIANCE AUDIT:

This service area heavily relies on TAX's computer system. Many of the staff are home-based. The staff is also expected to travel rather frequently.

COMPLIANCE COLLECTIONS:

Efficient performance of this service relies on maintaining a well trained staff and the operation of technical support services that can quickly and reliably bring accurate information to the staff.

GENERAL ADMINISTRATION:

The 24 hour deposit rule requiring all tax payments be deposited into the bank and CARS (Commonwealth Accounting and Reporting System) within 24 hours, restrictive State purchasing laws, policies and procedures, availability of goods and services, and enactment of VITA changes.

INFORMATION TECHNOLOGY:

Technology systems, including application software and hardware, must be upgraded and refreshed on an ongoing basis to ensure they operate correctly and are available for use by end users. Further, TAX must refresh hardware and upgrade software versions in a timely manner to eliminate the risk of the Commonwealth's revenue systems becoming obsolete again in the future, jeopardizing all of TAX's business operations. Most tax-related legislative changes necessitate changes to TAX's automated systems. The variety of filing and service "channels" provided by TAX often means the change must be made in several systems, each supporting a different channel. The customer demand for and use of electronic, self-help services continues to increase, requiring continued capacity expansions within existing services. Agency management and users continue to demand automated solutions to replace historically manual tasks. This results in increased operating efficiency and improved customer services, but requires an ongoing commitment to information technology services.

TRAINING FOR LOCAL ASSESSORS:

Factors such as locality budgets, availability of instructors, adequate number of students interested in a particular offering, availability of classrooms and housing can have a negative impact on participation.

VALUATION AND ASSESSMENT ASSISTANCE FOR LOCALITIES:

Limited budget sources and staffing.

Anticipated Changes in Agency Products and Services

TAX POLICY RESEARCH AND ANALYSIS:

The volume of documents are expected to continue without substantial change and depend on the quantity and complexity of tax legislation and business transactions. Taxpayers and tax practitioners are expected to request more guidance as the complexity and monetary risks of business transactions increase.

TAX RETURN PROCESSING:

TAX anticipates a greater reliance on electronic filing and technological advances to gain efficiencies and serve our increasing volume of customers.

CUSTOMER SERVICE:

The implementation of Advantage Revenue (AR) and other electronic resources will provide more services to taxpayers at a single point of contact.

PUBLIC PRIVATE PARTNERSHIP:

All but one of the new systems have been successfully implemented, have proven value in terms of providing new services and improving operating efficiency, and are now mission critical components of TAX's operations. One important task remains – the replacement of TAX's legacy back-office taxpayer accounting system (STARS) with the new accounting system Advantage Revenue (AR). AR is the single largest component of the program. AR was implemented in August 2005 and the new accounting system has been integrated with all of the other initiatives implemented during the Partnership, resulting in the

Agency Strategic Plan

Department of Taxation

Integrated Revenue Management System (IRMS).

GENERAL ADMINISTRATION:

There continues to be an ongoing need to train and cross-train agency employees resulting from the new taxpayer accounting system implemented in August 2005, GASB 34 impact on Financial Statements, and an increased participation of agency employees in eVA procurement. With the transfer of IT staff to VITA, all telephone, data and electrical wiring for IT systems will be responsibility of TAX. Additional security hardware and software will be required to maintain the level of security needed for the multiple locations, including additional IRS requirements.

INFORMATION TECHNOLOGY:

Most tax-related legislative changes necessitate changes to TAX's automated systems. The variety of filing and service "channels" provided by TAX often means the change must be made in several systems, each supporting a different channel. The customer demand for and use of electronic, self-help services continues to increase, requiring the development of new electronic channels to replace traditional paper-based services as well as those services which currently involve direct interaction with agency staff. TAX plans to continue to exploit the eGovernment capabilities implemented in recent years to allow more citizens to interact with us electronically at a time that is convenient for them. Over the past few years, TAX implemented a broad range of technology-based solutions that have allowed dramatic improvements in operating efficiency as well as allowed TAX to improve service to citizens. Now that the tools are in place, TAX plans to exploit the capabilities inherent in those tools to ensure continuous improvement in operating efficiency and customer service.

Agency Financial Resources Summary:

The agency is the largest depositor of general fund revenue and is predominantly funded from the general fund. It uses nongeneral funds for outside collection agencies funding (percentage of collections), the partnership project funding, railroad and pipeline assessment funding, and local assessor training classes.

	<u>Fiscal Year 2007</u>		<u>Fiscal Year 2008</u>	
	General Fund	Nongeneral Fund	General Fund	Nongeneral Fund
Base Budget	\$81,075,261	\$21,825,856	\$81,075,261	\$21,825,856
Changes To Base	\$5,039,137	(\$9,246,319)	\$4,830,332	(\$12,510,259)
AGENCY TOTAL	\$86,114,398	\$12,579,537	\$85,905,593	\$9,315,597

Agency Human Resources Summary:

Human Resources Overview

TAX is headquartered in Richmond, and relies on a balance of classified, wage and contract employees to deliver compliance, processing, customer contact, administrative and support services to its customers. Approximately 200 field personnel are home-based outside of the Richmond area, including 22 non-resident auditors in other states. Generally, the agency has been able to meet its staffing needs satisfactorily; however, if the unemployment level continues to remain low, it is anticipated that alternatives to traditional staffing may need to be explored to meet our staffing demands in the near future, especially as more staff become retirement-eligible.

Agency Strategic Plan

Department of Taxation

Full-Time Equivalent (FTE) Position Summary

Effective Date:	6/1/2005
Total Authorized Position level	908.5
Vacant Positions	43.5
Non-Classified (Filled).....	2
Full-Time Classified (Filled)	862
Part-Time Classified (Filled)	1
Faculty (Filled)	0
Wage	238
Contract Employees	96
Total Human Resource Level	1199

Factors Impacting Human Resources

- The average age of the classified workforce continues to increase. At present, it is 46.5, with approximately 10% of our employees currently over the age of 60. 104 employees (approximately 12% of the workforce) are retirement eligible (unreduced benefits) in 2005-06 and approximately 24% are eligible for full retirement in the next 5 years.
- With an aging workforce, the agency anticipates an increase in work-family issues as well as use of short-term and long-term disability.
- Many of our home-based field personnel are eligible for retirement in the near future, with two of our districts potentially losing more than half of their workforce over the next 2-3 years due to retirements. Of particular concern is the ability to attract and retain Northern Virginia based Audit staff.
- Implementation of a state-of-the-art Integrated Revenue Management System (IRMS) in 2005 will affect hiring of new employees, with a focus on individuals who have greater levels of technical competence than before.

Anticipated Changes in Human Resources

- TAX may need to replace 24% of its workforce over the next five years because of retirements; this is on top of normal turnover of approximately 4%. Many of the key positions that will become vacant in the next one to three years are positions that require extensive TAX knowledge. It is apparent to the agency that we will need to: 1) ensure effective knowledge transfer and 2) properly develop our future leaders.
- Human resource levels should remain fairly constant over the next several years to deliver the expected high service levels to our customers. This may require creative compensation strategies and more flexible work arrangements (such as telecommuting or alternative work schedules) if the job market continues to be strong and workers with the requisite skill sets are in high demand.
- TAX may need to increase its reliance on wage or contract workers to fill in the staffing gaps due to temporary vacancies caused by disabilities and other Family Medical Leave Act (FMLA) issues.

Agency Information Technology Summary:

Current State / Issues

Since 1998, TAX has been going through a period of rapid development and change and has implemented over twenty successful large IT systems. The results of these various implementations are a complex, mission critical technology environment providing capabilities and services previously unachievable and enabling business success that is unprecedented.

- In August 2005, TAX will be implementing the final component of a complex integrated financial system that is improving agency operating efficiency and providing a broad range of new and improved customer services. The immediate challenge for TAX will be to ensure the system operates as designed in production, and that employees become proficient in its use.

Agency Strategic Plan

Department of Taxation

- While TAX has been developing this new integrated technology system over the past 5 years, some components had to be frozen on their existing platform or version so that testing could be performed. Our environment technology requires that we remain current on the software versions that support all of the technology systems at TAX. Once the final component of our new system is implemented and stabilizes, TAX must invest time and resources into upgrading existing technology versions before they become unsupported by the manufacturer. This will be an important and ongoing focus area for TAX.

- This new integrated technology system provides a broad range of new functionality and new tools. Users are more sophisticated in their use of technology and will request additional enhancements once they learn to use the new system and identify changes that will further improve operating efficiency. These enhancements will have to be prioritized as we gain enough experience to make reasonable changes.

Factor Impacting Information Technology

- The technology that has been introduced at TAX over the past five years has enabled unprecedented business improvements and has provided a foundation for continuous improvement. TAX has an opportunity to literally exploit these new systems and technologies to further advance customer service and operating efficiency over time. Our capabilities are no longer limited by technology, but are only limited by our ability to effectively manage in a continuously changing (improving) environment. For example Siebel is used for basic routing of taxpayer contacts based on the reason for the contact and availability of staff. In the future, we can integrate the capabilities of our Learning Management System with the contact routing capabilities in Siebel, by developing a comprehensive skills inventory of all staff and routing calls to staff that are skilled in a particular area rather than next available person.

- TAX already provides functionality for online Internet filing of individual and business tax returns, paying bills and taxes online, and registering businesses online, but there are a number of additional enhancements and services taxpayers are requesting which can be implemented. e-Government is another technology solution that can be continuously leveraged and exploited to address changing customer needs while ensuring operational efficiency.

- Annual legislative changes require TAX to make system changes whenever the tax laws change. Now that our new system provides a wider array of taxpayer services, and channels for accessing those services, changes are frequently required in multiple systems, requiring more complex integrated testing to be performed.

- As the IRS continues to exploit the use of technology for federal tax administration, states must be able to adapt and continue strong partnerships in support of compliance and enforcement programs.

Anticipated Changes / Desired State

- As with any major system implementation, a process for managing changes, new requests, and additional enhancements must be created based on priorities and available resources.

- TAX is proud of the number of successful IT projects and new technology that has been implemented over the past few years but TAX needs to continue to seek opportunities where technology can be exploited to provide even better services and more efficient operations. Customer needs and expectations change frequently, and the technology available to enable customer service is continuously improving. TAX must continuously invest in technology not only to maintain our current state of operations, but to continuously improve our ability to operate efficiently and meet customer expectations. High performing organizations are always seeking opportunities for business process improvement, often enabled by technology.

Agency Strategic Plan

Department of Taxation

Agency Information Technology Investments:

	Cost-Fiscal Year 2007		Cost-Fiscal Year 2008	
	General Fund	Nongeneral Fund	General Fund	Nongeneral Fund
Major IT Projects	\$0	\$0	\$0	\$0
Non-Major IT Projects	\$1,869,328	\$0	\$0	\$0
Major IT Procurements	\$4,200,000	\$0	\$4,000,000	\$0
Non-Major IT Procurements	\$2,884,000	\$0	\$2,884,000	\$0
Totals	\$8,953,328	\$0	\$6,884,000	\$0

Agency Capital Investments Summary:

Current State / Issues

The Department of Taxation is currently in four different locations in the Richmond area. This was necessitated by a falling roof issue at the 2220 West Broad Street headquarters building in the fall of 1999. The agency still occupies three floors of this headquarters building (the 1966 addition) that is under a separate roof. The maintenance reserve spending in the budget is to preserve this building.

The agency has been in discussions with the Department of General Services to co-locate the Virginia Retirement System and TAX in a new building to be constructed on the 2220 West Broad Street site. This capital request for a new building is under discussion among the three agencies and the Department of Planning Budget.

Factors Impacting Capital Investments

Decision on whether a new building will be constructed at 2220 West Broad Street.

Capital Investment Alignment

Agency Goals

Goal #1:

Provide Accurate and Timely Analyses of Tax Related Issues, Effectively Resolve Complex Technical Issues, and Monitor Tax Issues Nationally

Goal Summary and Alignment:

TAX's interaction with the legislature, executive branch, taxpayers and external interest groups is critical to providing the information necessary to make policy decisions and to foster compliance with Virginia's tax laws.

Statewide Goals Supported by Goal #1

- Be recognized as the best-managed state in the nation.

Goal #2:

Ensure That Virginia Citizens and Businesses Understand and Comply with Virginia Tax Obligations as Prescribed by Law

Goal Summary and Alignment:

Using consistency in informing citizens and businesses of their tax obligation and enforcing their compliance puts all Virginians on a level field. This aligns with the long-term objectives of preserving and enhancing our economy, of engaging and informing citizens to ensure we serve their interests, and striving to be the best-managed state in the nation.

Agency Strategic Plan

Department of Taxation

Statewide Goals Supported by Goal #2

- Be a national leader in the preservation and enhancement of our economy.
- Engage and inform citizens to ensure we serve their interests.
- Be recognized as the best-managed state in the nation.

Goal #3:

Ensure Customer Satisfaction

Goal Summary and Alignment:

Foster positive customer interaction by providing timely responses to customer inquiries whether offered via letter, telephone, or email. Improving service quality to inform the citizens and businesses better of their tax obligations.

Statewide Goals Supported by Goal #3

- Engage and inform citizens to ensure we serve their interests.
- Be recognized as the best-managed state in the nation.

Goal #4:

Implement innovative technologies for core business services to maximize operational efficiency and effectiveness.

Goal Summary and Alignment:

Improving productivity through innovation and increased technological capabilities to ensure collaboration among business units. These technological advances will ensure the administration of the tax laws in an efficient and consistent manner.

Statewide Goals Supported by Goal #4

- Be recognized as the best-managed state in the nation.

Goal #5:

Provide for the effective performance of TAX personnel.

Goal Summary and Alignment:

By maximizing the effectiveness and efficiency of its personnel and operations, TAX will be able to provide excellent service to its customers.

Statewide Goals Supported by Goal #5

- Be recognized as the best-managed state in the nation.

Goal #6:

Provide Valuation and Assessment Assistance to Localities

Goal Summary and Alignment:

By providing assistance to local governments in the administration of the local property tax laws (both real and personal) of the Commonwealth, the Department of Taxation ensures that all property is assessed uniformly and at fair market value as prescribed by the Virginia Constitution. This aligns with the long-term objectives of preserving and enhancing our economy, of engaging and informing citizens to ensure we serve their interests, and striving to be the best-managed state in the nation.

Agency Strategic Plan

Department of Taxation

Statewide Goals Supported by Goal #6

- Engage and inform citizens to ensure we serve their interests.
- Be recognized as the best-managed state in the nation.